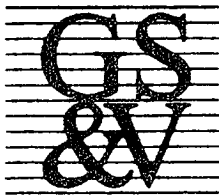


TOWN OF NEWPORT
AGREED-UPON PROCEDURES ON MUNICIPAL GRANTS
FOR THE YEAR ENDED JUNE 30, 2008



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**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

Town of Newport
226 N. James Street
P.O. Box 3053
Newport, Delaware

We have performed the procedures enumerated below, which were agreed to by the Town of Newport, State of Delaware's Office of the Auditor of Accounts, Department of Homeland Security, and the Office of the State Treasurer, solely to assist the specified parties with respect to determining the Town's compliance with Delaware's applicable laws, regulations, financial reporting and the effectiveness of the internal control structure related to the municipal grant funds received for the year ended June 30, 2008. The Town of Newport's management is responsible for compliance with those requirements.

This agreed-upon procedures attestation engagement was performed in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States and the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings were as follows:

1. Complete the State of Delaware Office of Auditor of Accounts municipal grants agreed-upon procedures program to determine the Town of Newport's compliance with applicable laws, regulations and financial reports related to municipal grant funds received for the year ended June 30, 2008 and detail any instances of noncompliance.

The Town of Newport received municipal grant funds under the following programs for the year ended June 30, 2008:

Municipal Street Aid
Police Pension
State Aid to Local Law Enforcement
Emergency Illegal Drug Enforcement

FINDING NO. 08-1 During completion of the Town of Newport's program checklist for the Municipal Street Aid grant, it was noted that, due to administrative oversight, three checks contained only one signature. The Town's internal control policy requires two signatures on Municipal Street Aid fund checks. Dual signature requirements strengthens internal controls and helps prevent unauthorized payments, which could jeopardize future funding.

RECOMMENDATION The Town should ensure that it follows its internal control policies over Municipal Street Aid fund expenditures.

TOWN'S PLAN FOR CORRECTIVE ACTION

The Town will follow the Town's internal control policy by obtaining two signatures prior to releasing a check in payment of a Municipal Street Aid invoice.

FINDING NO. 08-2 During the completion of the Town of Newport's program checklist for the Municipal Street Aid grant, it was noted that, due to administrative oversight, the Municipal Street Aid funds were inadvertently deposited directly into the Town's general operating account on December 18, 2007, but were not transferred to the Municipal Street Aid account until July 15, 2008. Even though the funds were timely deposited, 30 Del. C. §5165(a) require that they be deposited into a designated *Municipal Street Aid Fund* account. Failure to comply with the provisions of guidelines relating to the administration of grant funds may affect future funding.

RECOMMENDATION The Town should take measures to ensure that Municipal Street Aid funds are timely deposited into the Municipal Street Aid fund account.

TOWN'S PLAN FOR CORRECTIVE ACTION

The Town will make timely deposits of Municipal Street Aid funds within 24 hours of receipt ensuring that the deposited funds are going into the dedicated Municipal Street Aid account.

FINDING NO. 08-3 During completion of the Town of Newport's program checklist for the Municipal Street Aid grant, it was noted that the annual report was submitted timely to the office of the State Treasurer, but the annual report was not accurately prepared or reviewed [30 Del. C. §5165(b)(2)]. On the annual report, the beginning balance was understated by \$970.22, interest earned on Municipal Street Aid funds was understated by \$4.21, lighting expenditures were understated by \$77.36, and the ending cash balance was understated by \$897.07. Failure to comply with the provisions of guidelines relating to the administration of grant funds may affect future funding.

RECOMMENDATION The Town should ensure that the annual report is reviewed for accuracy and completeness prior to submitting to the office of the State Treasurer.

TOWN'S PLAN FOR CORRECTIVE ACTION

The Town will properly review the annual report for accuracy and completeness prior to sending the report to the Office of the State Treasurer's office.

FINDING NO. 08-4 During completion of the Town of Newport's program checklist for the Municipal Street Aid grant, it was noted that, due to various administrative personnel changes, the Municipal Street Aid Fund reimbursed the Town's general operating account \$4,984.76 labeled as transfers for 2005, 2006, and 2007, without any supporting documentation for the transfer. In accordance with 29 Del. C. §6515(a), reimbursements should be supported by proper documentation. Failure to comply with the provisions of guidelines relating to the administration of grant funds may affect future funding.

RECOMMENDATION The Town should either provide proper documentation for the transfer, or return the funds to the Municipal Street Aid Fund.

TOWN'S PLAN FOR CORRECTIVE ACTION

The Town will implement procedures to ensure that proper documentation is proved prior to any transfer or reimbursement from the Municipal Street Aid dedicated account.

FINDING NO. 08-5 During completion of the Town of Newport's program checklist for the Municipal Street Aid grant, it was noted that, due to various administrative personnel changes, five (5) invoices were paid more than thirty (30) days after the invoice date. Late charges were incurred on four (4) of these invoices. This is in noncompliance with the State's regulations over disbursement of its funds [29 Del. C. §6516(d)]. Bills paid out of the Municipal Street Aid account should be recorded and paid within thirty (30) days to avoid late charges. Failure to comply with the provisions of guidelines relating to the administration of grant funds may affect future funding.

RECOMMENDATION The Town should ensure that controls are in place so that invoices are paid within thirty (30) days.

TOWN'S PLAN FOR CORRECTIVE ACTION

The Town will log in invoices and ensure that any Municipal Street Aid invoices are paid within 30 days to avoid late fees or interest charges.

FINDING NO. 08-6 During completion of the Town of Newport's program checklist for the police pension funds, it was noted that "Registration for Police Pension Fund Benefits" was not received by the State Treasurer's Office by April 1 as required in accordance with 18 Del. C. §709(a). Even though the report indicated it was prepared on March 24, 2008, due to administrative oversight, it was not received by the State Treasurer's Office until April 2, 2008. Failure to comply with the provisions of guidelines relating to the administration of grant funds may affect future funding.

RECOMMENDATION The Town should comply with all requirements of grant agreements and file timely mandated information.

TOWN'S PLAN FOR CORRECTIVE ACTION

The Town will "calendar" March 15 for completion of this form and utilize a "tickler" system to ensure that this filing is promptly sent by the deadline.

2. Address the status of any findings and recommendations disclosed in previous reports.

FINDING NO. 05-1 During completion of the Town of Newport's program checklist for the municipal street aid grant, it was noted that their cash internal control structure over municipal street aid has a lack of segregation of duties due to the lack of personnel. The administrative assistant controls cash, writes checks and reconciles the bank accounts. The Town Manager maintains a log of receipts, opens the bank statement and approves all invoices for payment and is one of the two check signers on the checks. Segregation of duties reduces the risk that one person could perpetrate and/or conceal errors in the normal course of his/her duties.

CURRENT STATUS The Town has initiated various controls relating to the Municipal Street Aid funds, however, please see Finding No. 08-01 for issues relating to the current year status.

FINDING NO. 05-2 During completion of the Town of Newport's program checklist for the Municipal Street Aid grant, it was noted that the Town made one of the loan payments 30 days after the due date. The Town did switch municipal street aid bank accounts during this time, so that the automatic withdrawal from the old account did not occur, which is in noncompliance with the State's regulations over disbursement of its funds [29 Del. C. §6516(d)]. Bills paid out of the municipal street aid account should be recorded and paid within 30 days to avoid possible late charges.

CURRENT YEAR STATUS See Finding No. 08-5.

FINDING NO. 05-3 During the completion of the Town of Newport's program checklist for the Municipal Street Aid grant, it was noted that their financial documents and transactions were administered in accordance with the applicable laws and regulations, and that their financial report was submitted timely to the office of the State Treasurer, but the financial report was not accurately prepared or reviewed [30 Del. C. §5165(b)(2)]. The beginning and ending balances were understated by \$1,561.01 and \$1,561.00, respectively, on the annual report. Expenditures were overstated by \$.01 on the annual report. The accurate preparation of the annual report is an important requirement of the grant.

CURRENT YEAR STATUS See Finding No. 08-3.

FINDING NO. 05-4 During completion of the Town of Newport's program checklist for the Municipal Street Aid grant, it was noted that \$1,561.00 not related to municipal street aid funds were deposited into the municipal street aid bank account in a prior year and these funds have not been transferred out. Only municipal street aid funds should be deposited in the separate bank account as required by [30 Del. C. §5165(c)]. The violation of provisions of the grant could affect future funding to the Town.

CURRENT YEAR STATUS All deposits into the Municipal Street Aid fund account were related to Municipal Street Aid funds.

FINDING NO 05-5 During completion of the Town of Newport's program checklist for the Municipal Street Aid grant, we were unable to determine if the bid process was followed in accordance with 29 Del. C. Chapter 69 and 30 Del. C. §5165(b)(3) for eligible street expenditures incurred, due to the lack of documentation retained during a prior Town administration in a prior year. The violation of provisions of the grant could affect future funding to the Town.

CURRENT YEAR STATUS The Town had no expenditures during the current year that came under 29 Del. C. Chapter 69 and 30 Del. C. 5165(b)(3).

FINDING NO 05-6 During completion of the Town of Newport's program checklist for the police pension grant, it was noted that the Town did not submit to the State Board of Pension Trustees by April 1, a listing of retired police officers receiving benefits from the Town as of December 31 of the preceding year, excluding those receiving benefits from the State of Delaware County and Municipal Police Pension Plan as required by the Delaware Code [18 Del. C. §709(b)]. The State Board of Pension Trustees has not requested this information from the Town or provided a format for the Town to submit this information to them. Failure to comply could result in the loss of grant funding.

CURRENT YEAR STATUS Since the Town of Newport does not participate in the proceeds of the insurance tax as outlined in 18 Del. C. §708(c)(2) they were not required to file the listing for the current year.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with specified laws. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Town of Newport's management and council members, the State of Delaware's Office of Auditor of Accounts, Department of Homeland Security, and the Office of the State Treasurer and should not be used by those who have not agreed to the procedures and have not taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

*Grabowski, Spiano
& Vincellette, CPAs*

Wilmington, Delaware
December 18, 2008